The Community Foundation San Luis Obispo County

Consolidated Financial Statements

December 31, 2017 and 2016

C O N T E N T S

CALIBER
AUDIT & ATTEST, LLP

Independent Auditors' Report on the Consolidated Financial Statements

To the Board of Directors
The Community Foundation San Luis Obispo County
San Luis Obispo, California

We have audited the accompanying consolidated financial statements of The Community Foundation San Luis Obispo County, a non-profit organization, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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CALIBER
AUDIT & ATTEST, LLP

Independent Auditors' Report on the Consolidated Financial Statements - Continued

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation San Luis Obispo County, as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Caliber Audit & Attest, LLP

San Luis Obispo, California
June 6, 2018

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The Community Foundation San Luis Obispo County

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 4,885,056	$ 5,796,791
Investments	50,490,176	43,558,793
Prepaid expenses and other assets	6,599	11,647
Beneficial interest in split interest agreements	2,028,328	1,836,590
Real estate held for sale	314,687	2,779,687
Note receivable	230,129	234,889
Property and equipment, net of accumulated depreciation	1,628,191	1,639,828
Total assets	$ 59,583,166	$ 55,858,225
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 16,897	$ 65,469
Accrued compensation	30,044	27,681
Deferred revenue	1,500	-
Grants payable	295,421	247,267
Liabilities to beneficiaries under split interest agreements	744,281	678,316
Agency funds held for others	3,767,817	4,017,632
Total liabilities	4,855,960	5,036,365
Commitments and Contingencies		
Net Assets		
Unrestricted		
Board reserved	308,907	200,527
Unreserved	4,911,488	4,017,964
Total unrestricted	5,220,395	4,218,491
Temporarily restricted	28,345,919	25,647,975
Permanently restricted	21,160,892	20,955,394
Total net assets	54,727,206	50,821,860
Total liabilities and net assets	$ 59,583,166	$ 55,858,225

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Activities
Year Ended December 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support				
Donations and bequests	$ 2,222,393	$ 1,166,157	$ 778,083	$ 4,166,633
Less amounts received on behalf of others	(225)	-	-	(225)
Interest and dividends	141,796	1,202,458	-	1,344,254
Realized and unrealized gain on investments	428,177	4,951,162	-	5,379,339
Change in value of split interest agreements	-	125,773	-	125,773
Less net investment income allocated to funds held for others	(543,576)	-	-	(543,576)
Miscellaneous income	104,294	-	-	104,294
Subtotal	2,352,859	7,445,550	778,083	10,576,492
Transfers to (from) funds	233,156	339,429	(572,585)	-
Net assets released from restrictions	5,087,035	(5,087,035)	-	-
Total revenue, gains and support	7,673,050	2,697,944	205,498	10,576,492
Grants, Allocations and Functional Expenses				
Grants and philanthropic distributions	6,008,786	-	-	6,008,786
Functional operating expenses				
Program services	885,755	-	-	885,755
Management and general	386,859	-	-	386,859
Fundraising and development	183,362	-	-	183,362
Less grants and expenses allocated to funds held for others	(793,616)	-	-	(793,616)
Total expenses	6,671,146	-	-	6,671,146
Change in net assets	$ 1,001,904	$ 2,697,944	$ 205,498	$ 3,905,346

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statement of Activities
Year Ended December 31, 2016

	2016			
	Unrestricted	***Temporarily Restricted***	***Permanently Restricted***	***Total***
Revenue, Gains and Support				
Donations and bequests	$ 1,488,707	$ 805,981	$ 1,047,713	$ 3,342,401
Less amounts received on behalf of others	(323,631)	-	-	(323,631)
Interest and dividends	130,284	1,103,901	-	1,234,185
Realized and unrealized gain on investments	163,209	1,677,604	-	1,840,813
Change in value of split interest agreements	-	356,267	-	356,267
Less net investment income allocated to funds held for others	(266,877)	-	-	(266,877)
Miscellaneous income	96,346	4,850	-	101,196
Subtotal	1,288,038	3,948,603	1,047,713	6,284,354
Transfers to (from) funds	(89,440)	23,886	65,554	-
Net assets released from restrictions	1,901,809	(1,901,809)	-	-
Total revenue, gains and support	3,100,407	2,070,680	1,113,267	6,284,354
Grants, Allocations and Functional Expenses				
Grants and philanthropic distributions	2,148,336	-	-	2,148,336
Functional operating expenses				
Program services	809,034	-	-	809,034
Management and general	360,657	-	-	360,657
Fundraising	178,159	-	-	178,159
Less grants and expenses allocated to funds held for others	(197,767)	-	-	(197,767)
Total expenses	3,298,419	-	-	3,298,419
Change in net assets	$ (198,012)	$ 2,070,680	$ 1,113,267	$ 2,985,935

See Notes to Consolidated Financial Statements.

The Community Foundation San Luis Obispo County

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Totals*
Net Assets - December 31, 2015	$ 4,416,503	$ 23,577,295	$ 19,842,127	$ 47,835,925
Change in net assets	(198,012)	2,070,680	1,113,267	2,985,935
Net Assets - December 31, 2016	4,218,491	25,647,975	20,955,394	50,821,860
Change in net assets	1,001,904	2,697,944	205,498	3,905,346
Net Assets - December 31, 2017	$ 5,220,395	$ 28,345,919	$ 21,160,892	$ 54,727,206

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 3,905,346	$ 2,985,935
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for endowments	(1,944,240)	(1,853,694)
Depreciation	56,512	56,539
Realized and unrealized gain on investments	(5,379,339)	(1,840,813)
Change in value of split interest agreement	(125,773)	(356,267)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	5,048	(4,191)
Note receivable	4,760	104,750
Accounts payable	(48,572)	55,125
Accrued compensation	2,363	(5,542)
Deferred revenue	1,500	-
Grants payable	48,154	(195,725)
Agency funds held for others	(249,815)	201,562
Net cash used in operating activities	(3,724,056)	(852,321)
Cash flows from investing activities:		
Purchase of investments	(28,154,462)	(20,772,018)
Proceeds from sale of investments	26,602,418	20,072,670
Proceeds from sale of real estate	2,465,000	124,000
Purchase of property and equipment	(44,875)	(3,454)
Net cash provided by (used in) investing activities	868,081	(578,802)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows - Continued
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from financing activities:		
Contributions restricted for endowments	$ 1,944,240	$ 1,853,694
Net increase (decrease) in cash and cash equivalents	(911,735)	422,571
Cash and cash equivalents, beginning of year	5,796,791	5,374,220
Cash and cash equivalents, end of year	$ 4,885,056	$ 5,796,791
Cash and cash equivalents		
Available for operations, including board reserved funds	$ 612,222	$ 392,332
Available for specific purposes	4,272,834	5,404,459
Total cash and cash equivalents	$ 4,885,056	$ 5,796,791

See Notes to Consolidated Financial Statements.

Note 1. Operations and Summary of Significant Accounting Policies

Nature of operations:

The Community Foundation San Luis Obispo County (“the Foundation") is a California non-profit, non-stock, public benefit corporation that was incorporated on May 9, 1998, under the laws of the State of California. The mission of The Community Foundation San Luis Obispo County is to make a difference through philanthropic leadership. The Foundation administers various funds contributed by individuals, organizations, and businesses. The funds are managed as a pool of assets. A percentage of the funds' assets are distributed to local non-profit organizations in the form of grants or to local students in the form of scholarships. The Foundation’s activities are conducted by the Board of Directors, Chief Executive Officer and supporting staff.

Principles of consolidation:

The accompanying consolidated financial statements as of December 31, 2017 and 2016 include the financial statements of the Foundation and the Real Estate Foundation of San Luis Obispo County, which is a supporting organization under the control of the Foundation. The total asset balance of the Real Estate Foundation as of December 31, 2017 and 2016 was $583,255 and $3,053,512, respectively. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of accounting:

The consolidated financial statements are presented on an accrual basis, which recognizes income when earned, and expenses when incurred.

Financial statement presentation:

In order to accommodate the various alternatives for donors’ distribution objectives, the Foundation’s records are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

The Foundation has presented its consolidated financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

A summary of the net asset categories included in the accompanying consolidated financial statements is as follows:

Unrestricted Net Assets: Unrestricted amounts represent all contributions other than endowments that are available for various activities, including:

- Operational and administrative functions.
- Support of community activities and charitable activities at the discretion of the Board of Directors.
- Contributions with donor-imposed restrictions that are met during the same year as the contribution is made are included in unrestricted support that increases unrestricted net assets.

Temporarily Restricted Net Assets: Temporarily restricted amounts represent gifts that are subject to donor-imposed restrictions, either for a specific purpose or subject to the passage of time. Temporarily restricted amounts also include earnings on permanently restricted endowments that are absent of explicit donor stipulations and that have not yet been appropriated for expenditure by the Foundation. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets. Board designations, which are voluntary board-approved segregations of net assets, that are a part of the endowment, are considered temporarily restricted. The designated net assets are net assets that are subject to limits that are self-imposed by the governing board.

Permanently Restricted Net Assets: Permanently restricted amounts represent those assets contributed to the Foundation where the original dollar value is to remain in perpetuity as a permanent endowment of the Foundation. While the Foundation's bylaws and fund agreements provide for variance power, which, under certain unanticipated circumstances allows for the modification of restrictions, management believes that such variance power applies only to the use of endowment earnings, not expenditure or disbursement of the principal. Accordingly the Foundation has recorded such amounts as a component of permanently restricted net assets.

It is also the Foundation's policy that permanently restricted assets are reported at their original value at the time of the gift. Management keeps the original corpus and realized and unrealized gains and losses on those assets linked for determining the fair market value of the fund for administrative purposes. Realized and unrealized gains and losses on those assets are recorded as temporarily restricted assets until appropriated, and do not impact the original corpus of the permanently restricted assets.

Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates used in preparing these consolidated financial statements include those assumed in computing the estimated fair value of the split interest agreements and the hedge funds, the estimated value of contributed real estate, and the functional allocation of expenses.

Cash and cash equivalents:

The Foundation considers cash equivalents to be all highly liquid debt instruments with a maturity of three months or less. Cash and cash equivalents consist mainly of cash and money market funds, and are valued using Level 1 inputs as discussed in Note 3.

Concentrations of credit risk:

The Foundation maintains cash balances at financial institutions located in California. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the years ended December 31, 2017 and 2016, the Foundation held cash in excess of federally insured limits at Pacific Premier Bank; however, the Foundation has an agreement with Pacific Premier Bank (formerly Heritage Oaks Bank) to collateralize and therefore guarantee all deposits in excess of $250,000 for the Foundation up to a certain limit.

The Foundation invests in various types of cash equivalents, such as marketable securities and money market funds. The Foundation has established guidelines relative to diversification and maturities that target certain safety and liquidity risk levels. These guidelines are periodically reviewed and modified.

The Foundation also invests in various investment securities. Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Investment valuation and income recognition:

The Foundation's investments are stated at fair market value in the consolidated statement of financial position, with all gains and losses included in the consolidated statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurement.

Investments acquired by gift are recorded at their fair market value at the date of the gift. The Foundation’s policy is to liquidate all gifts of investments as timely as possible, taking into consideration the impact on market price.

Investments are made according to the Investment Policy adopted by the Foundation’s Board of Directors. These guidelines provide for a balanced diversified portfolio with investments in equities, fixed income and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Real estate held for sale:

The Real Estate Foundation receives donated land and property to further assist donors in building an enduring source of charitable funds. Real estate is valued at the fair value at the time of the donation and adjusted to fair value at each reporting period based on independent valuations or pending sales contracts.

Investment, administrative and management fees:

Investment, administrative, and management fees are recognized in the fiscal year in which they occur.

The Foundation charges an administrative fee internally for endowed and non-endowed funds under management. These fees help fund general operations, and are recorded internally both as revenue and expense. The fees have been netted for financial statement presentation as the fees do not come from sources external to the Foundation.

Notes receivable:

Notes receivable are periodically evaluated for collectability based on past credit history and their current financial condition. Provisions for losses on notes receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. No such provision for loss was considered necessary by management at December 31, 2017 and 2016.

Property and equipment:

Purchased property and equipment are stated at cost; donated assets are valued at their estimated fair value on the date donated. All assets are depreciated over estimated useful lives on a straight line basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Acquisitions of property and equipment in excess of $500 that meet the capitalization requirements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gains or losses are included on the statement of activities.

Estimated useful lives are as follows:

	Years
Building	40
Building improvements	7 –15
Furniture, fixtures, and equipment	3 – 7

Split interest agreements:

The Foundation has irrevocable remainder beneficiary interests in split interest agreements whose maturities are based on the life expectancy of the income beneficiaries (See Note 4). The Foundation is the trustee and beneficiary of the remainder interests in charitable remainder trust funds, which are held by another party as the agent for management purposes. The Foundation makes distributions to the income beneficiary for a given term and then at the end of the term, the remaining assets in the trust will be transferred to the Foundation. The Foundation has recorded the assets related to these funds, as well as the liabilities to the lifetime beneficiaries at the net present value of the estimated future payments.

The Foundation is also the beneficiary of the remainder interest in charitable gift annuities, in which a third party is the trustee. The Foundation has recorded the assets related to these charitable gift annuities at the net present value of the estimated future amount to be received.

The change in fair value of these assets is included in the change in value of split interest agreements on the statement of activities.

Charitable gift annuities license:

The Foundation has a California insurance license, allowing it to offer charitable gift annuities. Charitable gift annuities are recognized in the period in which the contract is executed. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the lifetime beneficiary, based on current life expectancy tables and a discount rate equal to the rate of return on the investment as initially agreed upon with the donor. In the cases where the Foundation sells or insures the annuity payment liability, no amounts are recorded on the statement of financial position. As of December 31, 2017, the Foundation has not issued any charitable gift annuities.

Grants payable:

Grants are made from available principal and income in accordance with the designation of the donors. The Foundation records a liability for grants when they have been approved by the Board of Directors.

Agency funds held for others:

The Foundation receives and distributes assets under certain agency and intermediary arrangements. The Foundation follows the authoritative guidance in the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (*ASC*) topic for *Not-for-Profit Entity, Revenue Recognition, Agent*. This Standard establishes standards for transactions in which the Foundation accepts assets from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to a not-for profit organization that is specified by the donor. This Standard specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the Foundation must account for the transfer of such assets as a liability.

The liability is reflected under agency funds held for others on the accompanying statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are presented separately on the accompanying statements of activities.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All pledges receivable and amounts received that are donor restricted for future periods or donor restricted for specific purposes are reported as temporarily or permanently restricted. The restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction when the donor stipulated time restriction ends or the purpose restriction is accomplished by the Foundation. All gifts granted to the Foundation are recorded at fair market value at the time of receipt.

Contributed services:

Contributed services are recorded in the consolidated financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed. For the years ended December 31, 2017 and 2016, there were also amounts that did not meet the criteria for recognition as described above, despite the considerable value of donated time by volunteers to the mission of the Foundation.

Income tax status:

The Foundation's activities are generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Franchise Tax Code except for unrelated business income tax, if any. Unrelated business income tax is tax on income generated by an activity that is unrelated to the tax-exempt purpose of the organization. It is a trade or business, is regularly carried on, and is not substantially related to the organization's exempt purpose. Since the Foundation is exempt from federal and state income tax liability, and does not engage in any activities that would generate unrelated business income tax, no provision is made for current or deferred income tax expense.

For the years ended December 31, 2017 and 2016, management of the Foundation is not aware of any material uncertain tax positions to be accounted for in the consolidated financial statements under the principles of the *Income Taxes* topic of the FASB *ASC*. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes.

Functional expense allocations:

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

Marketing:

The Foundation expenses marketing costs as incurred. Marketing expense was $9,180 and $4,986 for the years ending December 31, 2017 and 2016, respectively.

Recent accounting pronouncements:

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The ASU has five key changes that will impact presentation and disclosures of 1) net asset classes, 2) investment return, 3) expense reporting, 4) statement of cash flows, and 5) liquidity. In particular, ASU 2016-14 changes the net asset classification from three classes (unrestricted, temporarily restricted, permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions). The guidance is effective for reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Management will be evaluating the potential impact of the new guidance and is currently uncertain what impact the pronouncement will have on the financial statements, if any.

Note 2. Property and Equipment

Major classes of property and equipment and accumulated depreciation are as follows at December 31, 2017 and 2016:

	2017	2016
Land	$ 425,000	$ 425,000
Building	1,275,000	1,275,000
Building improvements	173,395	173,395
Furniture, fixtures, and equipment	109,754	81,117
	1,983,149	1,954,512
Less accumulated depreciation	(354,958)	(314,684)
Total property and equipment	$ 1,628,191	$ 1,639,828

Depreciation expense for the years ended December 31, 2017 and 2016 was $56,512 and $56,539, respectively.

Note 3. Investments and Fair Value Measurements

Investments consist of the following at December 31, 2017 and 2016:

	2017	2016
Common and preferred stocks	$ 23,137,190	$ 26,631,292
U.S. government and corporate bonds	2,829,305	3,159,488
Hedge funds	1,791,865	2,954,584
Fixed income/mutual funds	22,731,816	10,813,429
Total investments	$ 50,490,176	$ 43,558,793

Investments are measured at fair market value on a recurring basis. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3 inputs are significant unobservable inputs for the asset or liability.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments are stated at fair value, which is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The Foundation has alternative investments in hedge funds. Common stocks, preferred stocks, U.S. government and corporate bonds, and fixed income and mutual funds are classified within Level 1 and fair value is based on quoted market prices. The hedge funds are classified as Level 3. The fair value of the hedge funds has been estimated using the net asset value per share of the investments provided by the hedge fund managers.

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2017:

	Level 1	*Level 3*
Common and preferred stocks	$ 23,137,190	$ -
U.S. government and corporate bonds	2,829,305	-
Hedge funds	-	1,791,865
Fixed income/mutual funds	22,731,816	-
Total investments	$ 48,698,311	$ 1,791,865

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31, 2016:

	Level 1	*Level 3*
Common and preferred stocks	$ 26,631,292	$ -
U.S. government and corporate bonds	3,159,488	-
Hedge funds	-	2,954,584
Fixed income/mutual funds	10,813,429	-
Total investments	$ 40,604,209	$ 2,954,584

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 investments shown above for the years ended December 31, 2017 and 2016:

	Hedge Funds
Balance, at December 31, 2015	$ 4,025,748
Distributions from hedge funds	(1,072,625)
Total gains (unrealized and realized), net of fees	1,461
Balance, at December 31, 2016	2,954,584
Distributions from hedge funds	(1,296,464)
Total gains (unrealized and realized), net of fees	133,745
Balance, at December 31, 2017	$ 1,791,865

Unrealized gains associated with the hedge funds, which are Level 3 financial instruments, totaled $133,745 and $807 for the years ended December 31, 2017 and 2016, respectively.

Valuation of the hedge funds are reviewed periodically and determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Hedge funds are recorded at estimated fair value based on the net asset value of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the general partner of the limited partnerships. The Foundation believes that the reported amounts for these investments are a reasonable estimate of fair value. The following table represents the valuation techniques used to measure the fair value of the hedge funds, and the significant unobservable inputs and ranges of values for those inputs.

	Fair value	***Principal valuation technique***	***Unobservable inputs***	***Range of significant input values***
Hedge funds	$ 1,791,865	Net asset value of the Foundation's ownership interest in the partner's capital	Investment period (liquidity)	annually

Note 4. Split Interest Agreements

Charitable Remainder Trusts:

The Foundation is named the beneficiary of the remainder interest in two charitable remainder trusts. Contribution revenue is recognized using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present value of the liability is calculated by using recent life expectancy tables and risk adjusted discount rates.

The Foundation is the trustee, and as such the assets and liabilities are shown on the statement of financial position on a gross basis. As of December 31, 2017, the gross asset value is $2,025,751 and the estimated present value of the liability to the beneficiaries is $744,281. As of December 31, 2016, the gross asset value was $1,834,569 and the estimated present value of the liability to the beneficiaries was $678,316.

Charitable Gift Annuities:

The Foundation was named the beneficiary of the remainder interest, or a portion thereof, in one charitable gift annuity which was held as of December 31, 2017 and 2016. Contribution revenue and the related assets are recognized using the fair value of the Foundation's interest in the assets less the present value of the payments expected to be made to the beneficiaries. The present value is calculated by using recent life expectancy tables and risk adjusted discount rates. The Foundation is not the trustee, and as such the asset and liability are shown on a net basis on the statement of financial position. At December 31, 2017 and 2016, the beneficial interest in the charitable gift annuities was $2,577 and $2,021, respectively.

The valuation of split interest agreements falls into the Level 3 category of the fair value hierarchy, as discussed in Note 3.

The following table sets forth a summary of changes in the fair value of the split interest agreements, on a net basis, which are Level 3 assets, for the years ended December 31, 2017 and 2016:

	Split Interest Agreements
Balance, at December 31, 2015	$ 802,007
Contribution	500,634
Distributions	(54,158)
Total gains/losses (unrealized and realized)	(90,209)
Balance, at December 31, 2016	1,158,274
Total gains/losses (unrealized and realized)	125,773
Balance, at December 31, 2017	$ 1,284,047

The following table represents the valuation techniques used to measure the fair value of the split interest agreements, and the significant unobservable inputs and ranges of values for those inputs.

	Fair value	Principal valuation technique	Unobservable inputs	Range of signigicant input values
Split interest agreements	$1,284,047 at 2017; $1,158,274 at 2016	Net present value of the estimated future value to be received	Discount rate	1 - 3%
			Years remaining	4 - 10

Note 5. Real Estate Held for Sale

Real estate held for sale consists of real property held by the Real Estate Foundation.

The following table sets forth a summary of changes in the fair value of the real estate held for sale, which are Level 3 assets, for the years ended December 31, 2017 and 2016:

	Real Estate Held for Sale
Balance, at December 31, 2015	$ 2,903,687
Disposals	(124,000)
Balance, at December 31, 2016	2,779,687
Disposals	(2,465,000)
Balance, at December 31, 2017	$ 314,687

The following table represents the valuation techniques used to measure the fair value of the real estate held for sale, and the significant unobservable inputs and ranges of values for those inputs.

	Fair value	*Principal valuation technique*	*Unobservable inputs*	*Range of significant input values*
Real estate held for sale	$314,687 at 2017; $2,779,687 at 2016	Independent appraisals or pending sale contracts	Investment period (liquidity)	-

Note 6. Note Receivable

The Real Estate Foundation had notes receivable, secured by real property, with monthly payments in the amount of $1,366, including principal and interest, at the rate of 5%, due July 2021. At December 31, 2017 and 2016, notes receivable was $230,129 and $234,889, respectively.

Note 7. Endowment Funds

Interpretation of Relevant Law:

The Foundation follows the authoritative guidance in the FASB *ASC* that covers *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The State of California approved a version of UPMIFA in September 2008, effective for January 1, 2009. The Foundation adopted these provisions in fiscal year 2009.

The Board of Directors interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets 1) the original value of gifts donated to the permanent endowment, 2) the original value of subsequent gifts to the permanent endowment, and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination of whether to invest or appropriate donor-restricted endowment funds:

1) the duration and preservation of the fund
2) the purposes of the Foundation and the donor-restricted endowment fund
3) general economic conditions
4) the possible effect of inflation and deflation
5) the expected total return from income and the appreciation of investments
6) other resources of the Foundation
7) the investment policies of the Foundation

Investment and Spending Policies:

The Foundation's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current income (dividend and interest) and aggregate return from capital appreciation, in an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce a minimum annual compound total rate of return in excess of the asset-weighted blend of appropriate indices for each of the money managers for the equity portfolio and a minimum annual compound total rate of return in excess of the Barclay's Aggregate Bond Index for the fixed income portfolio. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciations (realized and unrealized) and current earnings (interest and dividends). The Foundation targets a diversified asset allocation.

Endowment funds are maintained in pooled investment portfolios. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pools.

The Foundation's spending policy calculates the amount of money annually available to spend from the Foundation's endowed funds for grant making. The spending policy is approved on an annual basis by the Board of Directors.

The Foundation spending policy is calculated as of December 31 each year, and currently allocates 4.00% per annum of the average net value of a fund invested in the pool, calculated over the last twelve quarters, to each fund's "available to spend" balance, which is available for granting in future years. If a fund has a lower amount of accumulated earnings than the calculated available to spend for the upcoming year, available to spend will be limited to the amount of the fund's accumulated earnings.

Over the long-term, the Foundation expects current spending policy to allow its endowment assets to provide real growth over the average rate of inflation annually. This is consistent with the objective to maintain purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns. The spending policy was 4.00% for both years. There were no other changes made to the spending policy for the years ended December 31, 2017 and 2016.

At December 31, 2017, endowment net assets consisted of the following:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor restricted endowments with principal to be held in perpetuity	$ -	$ 4,191,911	$ 21,160,892	$ 25,352,803
Donor restricted endowments in which principal may be distributed for specified purpose	-	22,325,145	-	22,325,145
Total	$ -	$ 26,517,056	$ 21,160,892	$ 47,677,948

At December 31, 2016, endowment net assets consisted of the following:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor restricted endowments with principal to be held in perpetuity	$ -	$ 2,189,386	$ 20,955,394	$ 23,144,780
Donor restricted endowments in which principal may be distributed for specified purpose	-	19,285,740	-	19,285,740
Total	$ -	$ 21,475,126	$ 20,955,394	$ 42,430,520

The temporarily restricted net assets include board designated endowments totaling $6,052,927 and $5,509,842 as of December 31, 2017 and 2016, respectively.

The changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, December 31, 2015:	$ -	$ 19,631,963	$ 19,842,127	$ 39,474,090
Investment return:				
Investment income	-	1,108,751	-	1,108,751
Net appreciation (realized and unrealized)	-	1,677,604	-	1,677,604
Total investment return	-	2,786,355	-	2,786,355
Contributions	-	805,981	1,047,713	1,853,694
Transfers	-	152,636	65,554	218,190
Appropriation of endowment assets for expenditure	-	(1,901,809)	-	(1,901,809)
Endowment net assets, December 31, 2016:	-	21,475,126	20,955,394	42,430,520
Investment return:				
Investment income	-	1,202,458	-	1,202,458
Net appreciation (realized and unrealized)	-	4,951,162	-	4,951,162
Total investment return	-	6,153,620	-	6,153,620
Contributions	-	1,166,157	778,083	1,944,240
Transfers	-	339,429	(572,585)	(233,156)
Appropriation of endowment assets for expenditure	-	(2,617,276)	-	(2,617,276)
Endowment net assets, December 31, 2017:	$ -	$ 26,517,056	$ 21,160,892	$ 47,677,948

As of December 31, 2017 and 2016, the Foundation held certain permanently restricted endowment funds in which the asset values had fallen below the original corpus level required by the donor due to market conditions or previous expenditure exceptions allowed. There was no aggregate deficiency when adding all donor-restricted permanently restricted endowment funds as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, there are permanently restricted endowments in which distributions have been made in excess of the earnings allocated to the fund. In other words, the historical principal gift has been invaded for grant distributions. The Foundation is currently working with these donors to address the negative balances. This excess amount totaled $34,640 and $34,160 as of December 31, 2017 and 2016, respectively, and related to 4 different permanent endowment funds in 2017 and 2016.

Permanently restricted net assets are restricted for the following at December 31, 2017 and 2016:

	2017	*2016*
Portion of endowment funds that is required to be retained permanently	$ 21,160,892	$ 20,955,394

Temporarily restricted net assets are restricted for the following at December 31, 2017 and 2016:

	2017	*2016*
Portion of endowment funds subject to a time or purpose restriction	$ 26,517,056	$ 21,475,126
Split interest agreements	1,284,047	1,158,274
Real Estate Foundation restricted assets	544,816	3,014,575
Total temporarily restricted net assets	$ 28,345,919	$ 25,647,975

Note 8. Grants Payable

As of December 31, 2017 and 2016, grants payable were as follows:

	2017	*2016*
Payable within one year	$ 194,588	$ 97,499
Payable within two to five years	100,833	149,768
Total grants payable	$ 295,421	$ 247,267

Note 9. Line of Credit

The Foundation has a line of credit with Pacific Premier Bank, allowing for borrowings up to $50,000 with a maturity date of August 1, 2018. Interest accrues at a variable rate of Wall Street Journal Prime plus 1.875% with a floor rate of 5.125%. There was no outstanding balance on the line of credit at December 31, 2017 and 2016.

Note 10. Agency Funds Held for Others

When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation accounts for the transfer of such assets as a liability. In addition, the related amounts received or distributed, investment income or loss, and expenses are excluded from the consolidated statement of activities. Agency funds held for others totaled $3,767,817 and $4,017,632 December 31, 2017 and 2016, respectively, for funds set up by unaffiliated non-profit organizations for their own benefit with the Foundation holding the assets.

Note 11. Concentrations - Major Contributions

For the year ended December 31, 2017, approximately 52%, or $2,249,706, of the Foundation's contribution revenue came from three donors. For the year ended December 31, 2016, approximately 34%, or $1,201,767, of the Foundation's contribution revenue came from three donors.

Note 12. Retirement Plan

The Foundation has a 401(k) profit sharing plan (the Plan) that covers all eligible employees. Employees are eligible to participate in the Plan after one year of eligible service. Each participant may elect to contribute up to the maximum limit by federal law. The Foundation makes a 3% safe harbor contribution, and may also make discretionary contributions. Employer contributions totaled $14,131 and $11,127 for the years ended December 31, 2017 and 2016, respectively.

Note 13. Subsequent Events

The date to which events occurring after December 31, 2017 have been evaluated for possible adjustment to the consolidated financial statements or disclosure is June 6, 2018, which is the date on which the consolidated financial statements were available to be issued.